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THE FOLLOWING STATE 104801 DTD 272038Z SEP 07,
SENT ACTION BERLIN, PARIS, LONDON INFO NSC
WASHINGTON DC, TREASURY DEPT WASHINGTON DC
BEING REPEATED FOR INFO:
QUOTE:

SIPDIS

E.O. 12958: DECL: 07/26/2017
TAGS: [ETTC](#) [KNNP](#) [PARM](#) [PREL](#) [IR](#)
SUBJECT: (S) IRAN,S BANK MELLI INVOLVEMENT IN
PROLIFERATION TRANSFERS

Classified By: A/S Patricia A. McNerney FOR REASONS 1.4 B/D
[1](#)1. (SBU) This is an action request, please see paragraph 3.

OBJECTIVES

[1](#)2. (S) The UK and France have indicated a desire to designate
Bank Melli under the next UNSC sanctions resolution on Iran.
Toward this end, Washington wishes to:

-- Provide officials in the UK, France and Germany with
additional information on the involvement of Iran's Bank
Melli in proliferation-related financial transfers; and

-- Enquire whether the UK, France or Germany have information
on Bank Melli's proliferation activities and whether the
information could be shared with China and Russia to
facilitate discussion by the P5 1. (Note: The attached
non-paper is not/not releasable to China or Russia. We
continue to seek clearance of at least some language, but
that is not assured; thus we are seeking UK/French
information that can be shared with the Russians and Chinese
in P5 1 discussions if we are to successfully include Melli
in the next resolution. End Note.)

ACTION REQUEST & REPORTING DEADLINE

[1](#)3. Washington requests addressees deliver the non-paper in
para 4 to appropriate host government officials in the
Ministry of Foreign Affairs and the Ministry of Finance.
Washington suggests posts seek to deliver the non-paper to
those who participated in the Levey-Rood discussions. Please
report delivery of the U.S. nonpaper and any immediate
response within seven working days of receipt of this cable.
Please slug replies for ISN, T, TREASURY, EUR and NEA.

[1](#)4. (S/REL TO GERMANY, UK AND FRANCE) BACKGROUND/NONPAPER
FOR GERMANY, UK AND FRANCE

BANK MELLI INVOLVEMENT IN PROLIFERATION TRANSFERS

-- Bank Melli is Iran's largest state-owned bank and handles
approximately 50 percent of the country's foreign exchange
business.

-- It facilitates payments for legitimate trade (such as some
of the Iranian Government's oil revenue reserve funds) as

well as a variety of sensitive activities, such as missile-related and nuclear-related procurement, terrorism-related transactions, and intelligence activity.

-- Most nuclear-related procurement and terrorist-related financial activity has been conducted at Bank Melli branches in Iran and the UAE, while Iranian embassy accounts in Azerbaijan, Germany, and the UAE have been used to hide sensitive payments.

Locations

-- Bank Melli has 13 overseas branches, four subsidiaries, and one partially owned bank, in addition to at least 35 correspondent banks in at least 18 countries, according to publicly available banking data.

-- Bank Melli also has eight branches in the Iranian free trade zone Kish Island that may be authorized to deal with foreign transactions, according to the Kish Trade Promotion Website.

-- The Hong Kong Monetary Authority (HKMA) is scrutinizing the Hong Kong office of Bank Melli for its ties to entities named under Executive Order (E.O.) 13382 ("Blocking the Property of Weapons of Mass Destruction Proliferators and their Supporters"), an authority aimed at freezing the assets of proliferators of weapons of mass destruction and their supporters and prohibiting transactions and trade between those designated entities and banks in U.S. jurisdiction. Bank Melli/Hong Kong has conducted extensive financial business on behalf of Iran's Bank Sepah following Sepah's designation under E.O. 13382 in January 2007.

-- Bahrain and Afghanistan: Bank Melli partnered with Bahrain's Ahli United Bank and Iran's Bank Saderat to open Future Bank BSC in Manama, Bahrain, in late June 2004, and partnered with Bank Saderat to open Aryan Bank in Kabul, Afghanistan, in late December 2004. On September 8, 2006, the U.S. Treasury revoked the license exemption that permitted Bank Saderat to engage conduct transactions indirectly through U.S. financial institutions because of the bank's ties to terrorist financing.

-- Hamburg and UAE: Bank Melli branches in Hamburg and the United Arab Emirates (UAE) have facilitated numerous sensitive transactions related to Iran's arms procurement and possibly its terror finance network.

-- U.S.: Bank Melli has been cited in about 300 U.S. bank suspicious activity reports since 1996.

Nuclear-related Transfers

-- Iranian entities, including front and procurement companies for the Atomic Energy Organization of Iran (AEOI), used Bank Melli for financial transfers from 2002 to 2005. These activities probably are related to Tehran's nuclear program, based on the entities involved.

-- Mesbah Energy Company and Novin Energy Company - AEOI front companies both named in January 2006 under Executive Order 13382 and later in UNSCR 1737 (Mesbah) and 1747 (Novin) - received Euro transfers into their accounts at Bank Melli/Esken branch in Tehran in 2003.

-- Mesbah transferred funds from Bank Melli/Esken to Fara Kala Sanat (FKS), a possible Iranian nuclear front company in mid-2005.

-- AEOI's Foreign Purchasing Department requested in November 2006 that Russia's Closed Stock Company Termoxid reimburse Mostafa Tarkashvand at the Iranian Embassy in Moscow via Bank Melli's Moscow branch.

Missile-related Transfers

-- Intermediaries used Bank Melli accounts to receive payments from subordinates of Iran's E.O. 13382 designee Aerospace Industries Organization (AIO), which oversees Iran's R&D and production of missiles and rockets.

-- Daniel Frosch Export Industrial Spare Parts of Austria, an intermediary for the AIO and the Iranian military, in December 2005 developed a method to receive payments from its Iranian clients using its affiliated company Bazaar Trading Company of Dubai. Iranian clients would pay Daniel Frosch's Bank Melli/Dubai account for shipping goods to Iran. Daniel Frosch would transfer the same funds to Bazaar Trading's Bank Melli/Dubai account, and Bazaar Trading would transfer the funds, less Bazaar's commission, to Daniel Frosch's Austrian account.

MODAFL Activities

-- A key MODAFL weapons R&D organization, Moasseseh Amozeshi Va Taghghati Sanaye (MAVT), also known as the Education and Research Institute (ERI) that may be tied to nuclear-related activities by Iran's military, held a balance of almost \$3 million in its Bank Melli/Dubai account in early 2002.

-- Iran Aircraft Manufacturing Industries, Iran Aircraft Industries, and Iran Electronic Industries have used Bank Melli branches in Esfahan and Shiraz, Iran, and Hong Kong as consignee for dozens of L/Cs for spare parts purchases.

DIO Activities

-- The DIO, which conducts research and development for Iran's defense and military forces and produces a wide variety of military-related weapons, technologies, and other equipment, uses Bank Melli/Hamburg to receive payments and to transfer funds.

-- NAB Export Company - a company subordinate to DIO involved in Iran's chemical weapons program - used DIO accounts as of early 2005 at Bank Melli/Hamburg to receive payments for unidentified goods.

Transfers with E.O. 13382 Designated Entities

-- In mid-May 2007, Bank Melli Central Branch, Tehran, was to facilitate the transfer of funds from Bank Sepah to a probably North Korean front company's account at MashreqBank in Dubai.

-- The Nuclear Power Production and Development Company of Iran (NPPD) transferred approximately Euro 40,000 to the Iranian Embassy in Moscow in late May 2007. The funds were credited to the embassy's account at the Moscow branch of Bank Melli Iran. NPPD is an affiliate company of the AEIOI of Iran. The reason for the payments is not known.

-- In addition, the AEIOI, in October 2006, transferred about \$30,000 from a Tehran branch of Bank Sepah to an account held by the Iranian Embassy in Moscow at Bank Melli Iran's branch in Germany. Similarly, the AEIOI in September 2006 transferred almost \$4,500 from Bank Sepah's Daneshgah branch in Tehran to an account held by the Iranian Embassy in Moscow at Bank Melli Iran's branch in Germany.

End background/nonpaper.

15. POINT OF CONTACT: (U) Washington appreciates Posts' assistance. POC for this demarche is ISN/CPI Michelle New at 202-647-0186 or newml@state.sgov.gov.
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